



Montreal River — Lawren Harris — The McMichael Conservation Collection

NORTHERN TELEPHONE LIMITED

65th ANNUAL REPORT

1969

TRANSFER AGENT

CROWN TRUST COMPANY,
Toronto, Montreal, Winnipeg and Calgary

TRUSTEE

CANADA PERMANENT TRUST COMPANY,
Toronto and Montreal

AUDITORS

KEMP & KEMP,
Chartered Accountants,
New Liskeard, Ontario

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE,
New Liskeard, Ontario

SIXTY - FIFTH

ANNUAL REPORT

NORTHERN TELEPHONE LIMITED

Year Ended December 31, 1969

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Transfer Agent, Trustee, Auditors and Bankers	<i>Inside Front Cover</i>

*Vous pouvez obtenir une version
française de ce rapport en écrivant
au Secrétaire,
Téléphone du Nord Limitée
New Liskeard, Ontario*

Highlights of the Report

FINANCIAL RESULTS

	1969	1968
Total Operating Revenues	\$10,584,976	\$10,807,847
Operating and General Expenses	4,852,835	5,258,776
Debenture Interest and Discount	914,648	969,129
Depreciation	2,286,576	2,406,449
Income Taxes	1,126,311	872,321
Net Income	1,414,748	1,117,815
Dividends - Preference	409,217	409,217
Dividends - Common	568,149	566,073
Earnings per average common share	.39	.30

BALANCE SHEET

Gross Fixed Assets	\$49,207,613	\$53,551,164
Net Fixed Assets	34,077,518	37,416,518
Accumulated Depreciation	15,130,095	16,134,646
Long Term Debt	14,997,000	16,167,500
Shareholders' Equity	20,878,448	20,676,266

ADDITIONAL STATISTICS

Telephones in service	94,424	97,912
Percent dial operated	96.8	95.2
Number long distance calls	5,427,557	5,152,324
Number of Central Offices	87	115
Number of employees at December 31st	595	766
Number of shareholders	2,762	2,845

OFFICERS
and
DEPARTMENT HEADS

DONALD McKELVIE
President

RICHARD A. H. TAYLOR
Vice-President

J. CHAS. BURKHOLDER
Secretary-Treasurer

MURRAY W. COOPER
General Manager

ROY B. BARNARD
*General B.I.S. -
Personnel Manager*

NORMAN E. CURRIE
General Plant Manager

RONALD GIBBINS
Chief Engineer

PATRICK S. HOGAN
*Traffic Department
Manager*

GLEN A. THOMPSON
*Commercial - Marketing
Department Manager*

LESLIE A. MILLER
Assistant Treasurer

ALPHONSE PICHE
*Plant Manager -
Northern Quebec
Telephone Inc.*

J. ROSAIRE LEVESQUE
*Commercial Manager -
Northern Quebec
Telephone Inc.*



D. McKELVIE
New Liskeard, Ont.



R. A. H. TAYLOR
New Liskeard, Ont.



RENE BUISSON
Rouyn, Qué.



J. P. GAGNON
Qué., Qué.



R. T. HUTCHINSON
New Liskeard, Ont.



J. C. LAVIGNE
Timmins, Ont.



J. A. McCUTCHEON
Ottawa, Ont.



W. R. RAMSAY
New Liskeard, Ont.



ORLAND TROPEA
Montreal, Qué.

DIRECTORS

RENE BUISSON
President, René Buisson Limited

J. PAUL GAGNON
Vice-President, Bell Canada

ROWAN T. HUTCHINSON
Real Estate Broker

J. CONRAD LAVIGNE
President, J. Conrad Lavigne Limited

JOHN A. McCUTCHEON
Vice-President, Bell Canada

DONALD McKELVIE
President, Northern Telephone Limited

W. RALPH RAMSAY
Queen's Counsel

RICHARD A. H. TAYLOR
*Chairman, Morissette Diamond
Drilling Limited
Vice-President, Northern Telephone Limited*

ORLAND TROPEA
Vice-President, Bell Canada

THE DIRECTORS' REPORT TO THE SHAREHOLDERS



Earnings for 1969 showed a substantial gain over 1968, with Income per Common Share at 39 cents compared to 30 cents in 1968. This represents an increase of 30%. Income before extraordinary items at \$1,324,430 was 18.5% higher than the previous year.

The sale of our "Western Assets", comprising the assets of The Algoma Central Telephone Company, Limited and the Company's assets in Northwestern Ontario, resulted in a 2% decrease of our Operating Revenues. However Operating Expenses decreased by 6.9%. These factors resulted in a gain of 9.6% in our Net Operating Revenues. The exclusion of the Western Assets from the 1968 results, identifies increases of 14% in the Operating Revenues, 12% in the Operating Expenses and 19% in the Net Operating Revenues, when compared to the 1969 results.

Part of the funds received from the sale of our Western Assets is invested in the short term money market at high interest rates. These funds also had the effect of curtailing borrowings and therefore interest payments.

The unsatisfactory part of our financial position is the Rate of Return on Total Capital before Extraordinary Items, which for 1969 was 6.38%. This is not only below acceptable levels, but also lower than most other telephone companies. The inflationary increases in the cost of capital, labour, materials and taxes cannot forever be countered by increased efficiency.

THE DIRECTORS' REPORT TO THE SHAREHOLDERS [continued]

The construction program in 1969 continued to be heavy, partly due to time lost in 1968 during a two months strike. Service Centres in Rouyn, Quebec and New Liskeard, Ontario were completed and should result in better working conditions and increased efficiency at those area centres. A Microwave Television System between St. Felicien and Chibougamau, Quebec was purchased and a long term contract is being entered into with the Canadian Broadcasting Corporation. This System can also be utilized to provide additional telephone circuitry in that area. Construction was commenced on Microwave Systems between Val d'Or, Amos and Rouyn-Noranda to provide increased circuitry.

In 1969 a decision was reached to change the status of our Val d'Or toll exchange to the Primary Centre for Northwestern Quebec. This will make available direct distance dialing to our subscribers in that area; this project is due for completion in the Spring of 1971. While the initial cost of this equipment is very considerable, there are labour savings involved, and better service to our customers.

Our cable distribution plant in various towns was added to during the year as a result of continuing growth. The same was true for the addition of central office equipment. Some small dial exchanges which had reached their growth limits were changed to more modern Cross-bar dial equipment. A considerable amount of plant growth and modernization work was undertaken in the La Sarre area which we purchased in 1967.

The 1970 Capital Budget, except for the initial construction phase of a Primary Centre in Val d'Or, is being kept to a minimum, consistent with good service. The extremely high interest rates and inflationary trends in other respects, coupled with our unsatisfactory rate of return necessitates this action. Telephone utilities are in constant need of substantial capital funds and therefore are extremely vulnerable to the cost-price squeeze.

The decision to erect a large smelter in the Timmins, Ontario area is pleasant news. The power development on the Montreal River, south of Cobalt, Ontario is progressing. These two projects are the only large ones on the immediate horizon. The pulp and paper industries are enjoying improved markets. Secondary industries based on these primary industries continue to grow in both Ontario and Quebec.

Negotiations towards new labour contracts in both provinces will commence in the near future. Our labour contracts expire on July 31st, 1970. Labour-Management Committees have been active during the past year and we believe better understanding between both parties has resulted.

Because of other business commitments, Mr. Claude Duhamel and Mr. Lorne Woods resigned as Directors effective December 31st, 1969. Both these gentlemen gave distinguished service to your Company. Mr. Jean Paul Gagnon of Quebec City and Mr. J. Conrad Lavigne of Timmins were appointed in their stead.

Earnings for 1970 are expected to show an increase. However our rate of return on total capital will still remain below an acceptable level at today's standards. Strict control will continue to be exercised, but if externally influenced costs continue to increase as at present, we will undoubtedly be forced into applications for increased rates.

Respectfully submitted on behalf of the Board.

D. McKELVIE,
President.

New Liskeard, Ontario.
February 20th, 1970.

NORTHERN TELEPHONE LIMITED
and subsidiary companies

CONSOLIDATED INCOME STATEMENT

	YEAR 1969	YEAR 1968
OPERATING REVENUES		
Local service	\$ 6,000,587	\$ 6,168,055
Long distance service	4,177,542	4,243,964
Miscellaneous	<u>406,847</u>	<u>395,828</u>
	<u>10,584,976</u>	<u>10,807,847</u>
OPERATING EXPENSES		
Maintenance	1,905,636	1,877,695
Depreciation	2,286,576	2,406,449
Traffic	932,327	1,009,624
Marketing and commercial	514,211	490,389
Other	<u>1,500,661</u>	<u>1,881,068</u>
	<u>7,139,411</u>	<u>7,665,225</u>
Net Operating Revenues	<u>3,445,565</u>	<u>3,142,622</u>
OPERATING TAXES		
Income taxes (Note 2)	1,126,311	872,321
Other taxes	<u>378,716</u>	<u>344,956</u>
	<u>1,505,027</u>	<u>1,217,277</u>
Operating Income	<u>1,940,538</u>	<u>1,925,345</u>
OTHER INCOME		
Miscellaneous	<u>672,656</u>	<u>473,375</u>
Total Income before Interest Charges	<u>2,613,194</u>	<u>2,398,720</u>
INTEREST CHARGES		
Interest on long term debt	893,660	948,141
Other interest	374,116	311,776
Amortization of discount and expense on long term debt	<u>20,988</u>	<u>20,988</u>
	<u>1,288,764</u>	<u>1,280,905</u>
Income before Extraordinary Items	<u>1,324,430</u>	<u>1,117,815</u>
EXTRAORDINARY ITEMS (Note 4)	<u>90,318</u>	<u>—</u>
NET INCOME	<u>\$ 1,414,748</u>	<u>\$ 1,117,815</u>
INCOME PER COMMON SHARE - before Extraordinary Items . .	\$ 0.39	\$ 0.30
- after Extraordinary Items . .	\$ 0.43	\$ 0.30

(Based on average number of shares outstanding)

CONSOLIDATED

ASSETS

	December 31, 1969	December 31, 1968
TELEPHONE PROPERTY		
Land, buildings, plant and equipment - at cost	\$49,207,613	\$53,551,164
Deduct: accumulated depreciation	<u>15,130,095</u>	<u>16,134,646</u>
	<u>34,077,518</u>	<u>37,416,518</u>
 Excess of purchase price over book value of subsidiary companies (Note 6)	 <u>4,003,603</u>	 <u>4,238,803</u>
 INVESTMENTS		
Sundry investments - at cost	17,940	19,148
Special refundable tax	<u>31,985</u>	<u>78,824</u>
	<u>49,925</u>	<u>97,972</u>
 CURRENT ASSETS		
Temporary Cash Investments	3,523,021	—
Accounts receivable	1,865,773	2,543,116
Materials and supplies - at cost	853,911	995,499
Prepayments	<u>128,653</u>	<u>158,199</u>
	<u>6,371,358</u>	<u>3,696,814</u>
 DEFERRED CHARGES		
Unamortized discount and expense on long term debt	 <u>248,423</u>	 <u>269,411</u>
 TOTAL ASSETS	 <u>\$44,750,827</u>	 <u>\$45,719,518</u>

On behalf of the Board of Directors:

D. McKELVIE, *Director*R. A. H. TAYLOR, *Director*

BALANCE SHEET

LIABILITIES

	December 31, 1969	December 31, 1968
SHAREHOLDERS' EQUITY		
Capital Stock		
Preference (Note 7)	\$ 7,564,000	\$ 7,564,000
Common (Note 8)	10,707,472	10,707,472
Retained Earnings	<u>2,606,976</u>	<u>2,404,794</u>
	<u>20,878,448</u>	<u>20,676,266</u>
 LONG TERM DEBT (Note 9)	 <u>14,997,000</u>	 <u>16,167,500</u>
 NOTES PAYABLE (Note 10)	 <u>5,300,000</u>	 <u>6,000,000</u>
 CURRENT LIABILITIES		
Bank overdraft - unsecured	290,588	117,223
Accounts payable	1,374,964	970,559
Debentures due in following year, less purchased to date	127,500	130,000
Dividends payable	250,517	250,404
Taxes accrued	193,139	229,793
Interest accrued	<u>186,354</u>	<u>191,327</u>
	<u>2,423,062</u>	<u>1,889,306</u>
 DEFERRED CREDITS		
Income tax (Note 2)	<u>1,152,317</u>	<u>986,446</u>
 TOTAL LIABILITIES	 <u>\$44,750,827</u>	 <u>\$45,719,518</u>

NORTHERN TELEPHONE LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	YEAR 1969	YEAR 1968
BALANCE AT BEGINNING OF YEAR	\$ 2,404,794	\$ 2,481,971
<i>Add:</i> Net Income	1,414,748	1,117,815
Miscellaneous	—	15,718
	<u>3,819,542</u>	<u>3,615,504</u>
<i>Deduct:</i>		
Amortized portion of excess purchase price over book value of subsidiaries (Note 6)	235,200	235,200
Income Tax assessments, prior years	—	220
Dividends - Preference	409,217	409,217
- Common	568,149	566,073
	<u>1,212,566</u>	<u>1,210,710</u>
BALANCE AT END OF YEAR	<u>\$ 2,606,976</u>	<u>\$ 2,404,794</u>

Consolidated Statement of Source and Disposition of Funds

	YEAR 1969	YEAR 1968
SOURCE OF FUNDS		
Operations		
Net Income	\$ 1,414,748	\$ 1,117,815
<i>Add:</i> Deferred Income Tax	165,871	240,556
Depreciation and other transactions not requiring an outlay of funds (net)	1,902,660	1,960,228
	<u>3,483,279</u>	<u>3,318,599</u>
Proceeds from Sale of Fixed Assets	5,962,994	—
Proceeds from Employees' Stock Plan	—	63,519
Special Refundable Tax	46,839	37,420
Miscellaneous items	1,208	17,062
	<u>\$ 9,494,320</u>	<u>\$ 3,436,600</u>
DISPOSITION OF FUNDS		
Construction Expenditures		
Gross Construction Expenditures	\$ 4,910,570	\$ 5,347,483
<i>Less:</i> Charges to construction not requiring an outlay of cash	404,904	467,011
	<u>4,505,666</u>	<u>4,880,472</u>
Net retirement of Notes Payable	700,000	(3,200,000)
Dividends - Preference	409,217	409,217
- Common	568,149	566,073
Redemption of Debentures	1,170,500	226,500
Income Tax assessment - prior years	—	220
Increase in Working Capital	2,140,788	554,118
	<u>\$ 9,494,320</u>	<u>\$ 3,436,600</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Principals of Consolidation

The accounts of the subsidiary companies, all of which are wholly owned, have been consolidated with those of the parent company, Northern Telephone Limited. These subsidiaries are:

Northern Quebec Telephone Inc.
Algoma Central Telephone Company, Limited

NOTE 2. Income Taxes

Commencing January 1st, 1966, the Company adopted the "Deferred Income Tax" method of recording the savings resulting from the excess of capital cost allowance claimed for income tax purposes over recorded depreciation. The deferral for the year ended December 31st, 1969, was \$165,871.

If the Company had used the "Deferred Income Tax" method for the years prior to 1966, the accumulated income tax at December 31st, 1969 would be \$2,267,107.

NOTE 3. Depreciation

Portion of the cost of depreciable telephone property charged against current operations, computed on the straight line method at a rate of approximately 5% in 1968 and 1969.

NOTE 4. Extraordinary Items

Extraordinary Items represents the profit on purchase for redemption of the Company's own debentures less an adjustment of advance billing (net of tax), as follows:

Profit on debentures purchased for redemption	\$177,232
Deduct: Adjustment - advance billing, prior years - (net of tax)	86,914
	<u>\$ 90,318</u>

NOTE 5. Remuneration of Directors and Senior Officers

Year 1969. Total remuneration received by the Directors from the Company and its subsidiary companies, including salaries of those Directors who were employees of the companies was \$62,570. Total remuneration received from the companies by senior officers who were not Directors of the Company amounted to \$70,950.

NOTE 6. Excess of Purchase Price Over Book Value of Subsidiary Companies

The excess of purchase price over book value is being amortized over a twenty year period of time commencing in 1967 through charges to retained earnings.

NOTE 7. Capital Stock - Preference at December 31st, 1969

Authorized - with a par value of \$20.00 each issuable in series

First Preference	500,000 shares	\$10,000,000
Second Preference	250,000 shares	\$5,000,000
Deduct: Redeemed	121,800 shares	2,436,000
	<u>128,200 shares</u>	<u>\$2,564,000</u>
		2,564,000
		<u>\$12,564,000</u>

Issued - FIRST PREFERENCE

75,000	5½%	cumulative redeemable preference shares - Series "A"	\$ 1,500,000
50,000	5½%	cumulative redeemable preference shares - Series "B"	1,000,000
100,000	5½%	cumulative redeemable preference shares - Series "C"	2,000,000
25,000	5½%	cumulative redeemable preference shares - Series "D"	500,000
			<u>5,000,000</u>

Issued - SECOND PREFERENCE

7,853	5%	cumulative redeemable preference shares - Series "A"	157,060
120,347	5¼%	cumulative redeemable convertible, preference shares - Series "B"	2,406,940
			<u>2,564,000</u>
		Total outstanding Preference Shares	<u>\$ 7,564,000</u>

NOTE 8. Capital Stock - Common at December 31st, 1969

Authorized - 5,00,000 shares of no par value
to be issued for a consideration not
to exceed \$15,000,000

	<u>Number of Shares</u>	<u>Consideration</u>
Issued - at January 1st, 1969 and December 31st, 1969	2,367,289	\$10,707,472

Conversion Privileges — Second Preference into Common

Series "B" - In June 1966, 150,000 5½% cumulative, redeemable, convertible, second preference shares, Series "B" were issued, with a par value of \$20.00 each. These shares are convertible, at the option of the holder up to December 1st, 1971, at the rate of two common shares for each Series "B" second preference share together with a simultaneous payment of \$8.00 to December 1st, 1971. As at December 31st, 1969, 29,653 shares had been converted into 59,306 shares leaving a balance of 120,347 shares which may be converted.

NOTE 9. Long Term Debt

Northern Telephone Limited
20 year Sinking Fund Debentures

<u>Maturity Date</u>	<u>Rate of Interest</u>	<u>Series</u>	<u>Outstanding</u>
September 1st, 1971	4½%	A	\$ 410,500
April 1st, 1975	4 %	B	856,500
May 1st, 1978	5¼%	C	1,555,500
January 2nd, 1981	6 %	D	1,826,500
December 1st, 1981	5½%	E	732,000
May 1st, 1983	5¾%	F	2,805,500
December 15th, 1984	5¾%	G	1,898,000
May 1st, 1987	6½%	H	4,900,000
			14,984,500

Northern Quebec Telephone Inc.
First Mortgage Sinking Fund Bonds

May 1st, 1975	6 %	B	140,000
			15,124,500

Deduct: Maturing in 1970, after taking into account debentures purchased
for redemption in excess of requirements

Total Long Term Debt \$14,997,000

NOTE 10. Notes Payable

Canadian Imperial Bank of Commerce \$5,300,000.

NOTE 11. Plan for Employees' Pension

The latest actuarial valuation of the Plan established an unfunded liability of \$81,211 at December 31st, 1968. This amount is being funded by regular payments commencing in 1969 and continuing for a period of 5 years. Payments are being charged against operations in the years in which they are made.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF

NORTHERN TELEPHONE LIMITED:

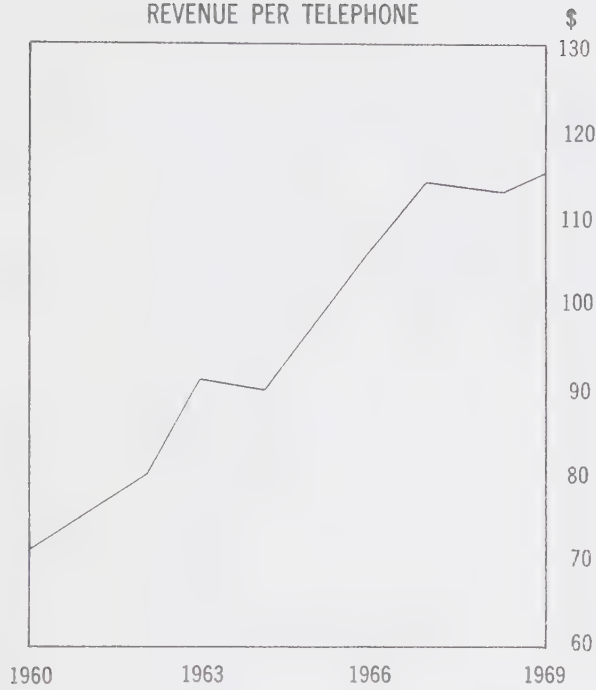
We have examined the consolidated balance sheet of NORTHERN TELEPHONE LIMITED as at December 31, 1969 and the consolidated income statement, statement of retained earnings and statement of source and disposition of funds for the year then ended. Our examination of the financial statements of Northern Telephone Limited and the subsidiary of which we are auditors included a general review of the accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who has examined the financial statements of the other subsidiary.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and disposition of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

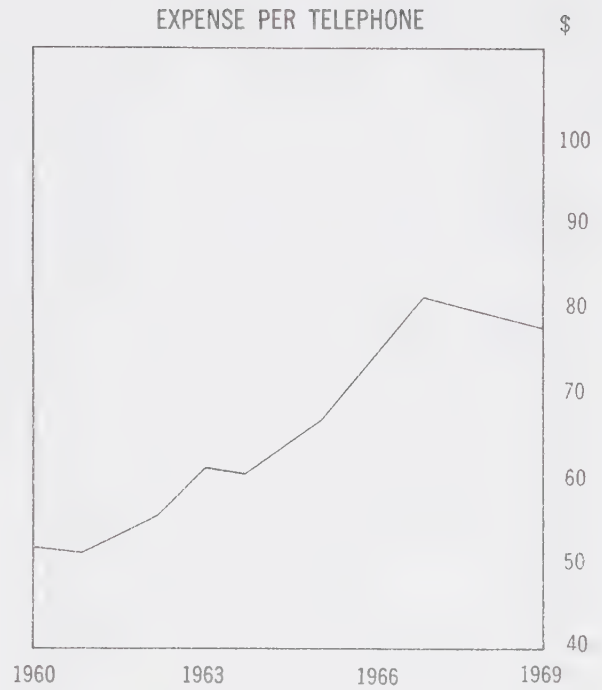
New Liskeard, Ontario,
3rd February, 1970.

KEMP & KEMP
Chartered Accountants

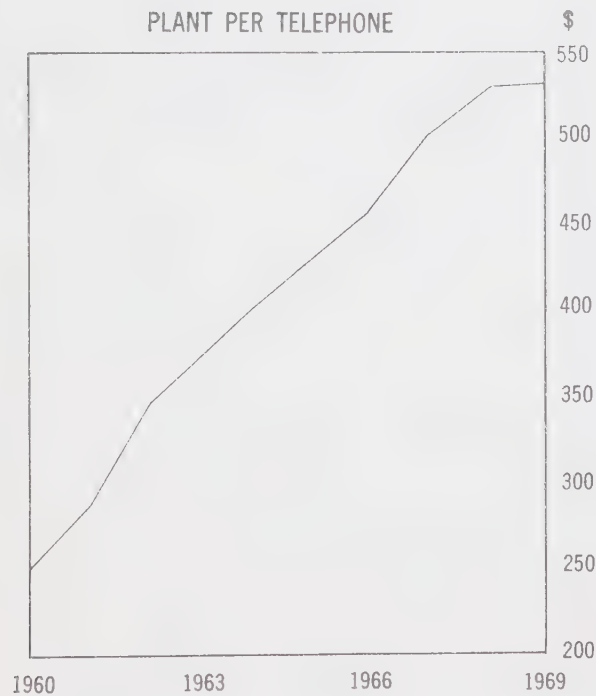
REVENUE PER TELEPHONE



EXPENSE PER TELEPHONE



PLANT PER TELEPHONE



DISPOSITION OF INCOME DOLLAR



STATISTICS

(Including A

	1969	1968	1967	1966
NUMBER OF TELEPHONES	94,424	97,912	94,190	85,705
Business	29,755	30,083	28,571	26,836
Residence	64,669	67,829	65,619	58,869
Percentage Residence of Total	68.5	69.3	69.7	68.5
Percentage Dial of Total	96.8	95.2	94.2	91.8
NUMBER OF CENTRAL OFFICES	87	115	115	108
MILES OF POLE LINES	3,786	4,134	4,110	3,914
MILES OF WIRE	293,343	297,339	282,232	251,304
LONG DISTANCE CALLS	5,427,557	5,152,324	5,224,231	4,432,847
Company Lines	2,598,626	2,560,812	2,672,179	2,137,615
Connecting Companies' Lines	2,828,931	2,591,512	2,552,052	2,295,232
TOTAL INVESTMENT PLANT & EQUIP.*	\$49,207,613	\$53,551,164	\$48,560,359	\$41,708,885
Plant & Equip. Less Dep.	\$34,077,518	\$37,416,518	\$34,475,484	\$29,980,665
OPERATING REVENUES	\$10,584,976	\$10,807,847	\$10,217,371	\$ 8,868,056
NUMBER OF EMPLOYEES				
Men	344	374	416	486
Women	251	392	430	389
Total Employees	595	766	846	875
TOTAL PAYROLL				
(Operations)	\$ 2,600,378	\$ 2,868,444	\$ 3,094,270	\$ 2,987,855
NUMBER OF SHAREHOLDERS				
In Canada	2,650	2,730	2,771	2,890
Elsewhere	112	115	93	94
Total Shareholders	2,762	2,845	2,864	2,984

*ADJUSTED — Excess of purchase price over book value of subsidiary companies formerly included in assets now shown separately on balance sheet.

1960 - 1969

bsidiaries)

1965	1964	1963	1962	1961	1960
81,348	77,498	71,681	67,066	63,625	54,457
25,367	24,115	22,039	20,610	19,386	16,190
55,981	53,383	49,642	46,456	44,239	38,267
68.8	68.8	69.3	69.3	69.5	70.3
89.2	84.4	82.8	78.0	77.0	70.7
109	103	91	84	74	61
3,825	3,752	3,259	3,050	2,852	2,160
235,834	215,023	200,648	188,808	160,722	129,854
4,113,808	3,306,631	3,119,205	2,790,736	2,527,267	2,073,152
1,927,245	1,552,586	1,460,572	1,407,856	1,288,112	1,030,591
2,186,563	1,754,045	1,658,633	1,382,880	1,239,155	1,042,561
\$36,062,388	\$32,572,672	\$27,336,419	\$24,336,419	\$20,043,411	\$14,181,328
\$25,849,376	23,212,665	\$19,471,665	\$17,927,815	\$14,310,955	\$ 9,969,919
\$ 7,856,925	\$ 6,746,203	\$ 6,364,850	\$ 5,322,034	\$ 4,505,493	\$ 3,674,805
503	393	313	319	282	194
245	357	336	317	315	274
748	750	649	636	597	468
\$ 2,411,478	\$ 2,088,215	\$ 1,894,873	\$ 1,602,358	\$ 1,416,262	\$ 1,286,450
5,228	4,934	4,604	4,156	3,881	2,665
286	300	403	398	346	191
5,514	5,234	5,007	4,554	4,227	2,856

"Montreal River"

by Lawren Harris

We have selected another painting by a member of the "Group of Seven" for the cover of this, our 65th Annual Report. The painting, titled "Montreal River" is the work of Lawren Harris who was a driving force behind the formation of the "Group of Seven". Mr. Harris produced the painting in 1920 and it forms a part of the McMichael Conservation Collection of Art at Kleinberg, Ontario. It was in fact the "founding" painting of this now famous collection. This represents the first time this painting has been reproduced. We would like to thank Mr. Robert McMichael for his interest and assistance in helping us select this particular work of art.



